

HEALTH PARTNERS OF SOUTHWEST IOWA

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

HEALTH PARTNERS OF SOUTHWEST IOWA  
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HEALTH PARTNERS OF SOUTHWEST IOWA  
Members  
June 30, 2015

<u>Members</u>	<u>Location</u>	<u>Representatives</u>
Cass County Memorial Hospital	Atlantic, Iowa	Todd Hudspeth
Montgomery County Memorial Hospital	Red Oak, Iowa	David Abercrombie
Myrtue Medical Center	Harlan, Iowa	Barry Jacobsen

# Gronewold, Bell, Kyhnn & Co. P.C.

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## INDEPENDENT AUDITOR'S REPORT

To the Members of  
Health Partners of Southwest Iowa

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of Health Partners of Southwest Iowa (a 28E Organization) as of June 30, 2015 and 2014 and the related statements of revenues, expenses, and changes in members' net position, and cash flows for the years then ended and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America: this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Members of  
Health Partners of Southwest Iowa

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Health Partners of Southwest Iowa as of June 30, 2015 and 2014 and the changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matter**

#### *Required Supplementary Information*

The Organization has omitted the Management's Discussion and Analysis (MD&A), that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2015 on our consideration of Health Partners of Southwest Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

*Gronewald, Bell, Kuhn + Co. P.C.*  
Atlantic, Iowa  
August 19, 2015

HEALTH PARTNERS OF SOUTHWEST IOWA  
Statements of Net Position  
June 30,

ASSETS

	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash	\$ 724,075	\$ 552,105
Certificates of deposit	506,247	504,480
Accounts receivable - members	23,109	14,509
- other hospitals	35,907	30,061
- other receivables	31,373	--
Prepaid expenses	<u>8,935</u>	<u>5,047</u>
Total current assets	1,329,646	1,106,202
Depreciable Capital Assets	684,710	684,710
Less accumulated depreciation	<u>278,476</u>	<u>149,816</u>
	406,234	534,894
Other Assets	<u>--</u>	<u>3,426</u>
Total assets	<u>\$ 1,735,880</u>	<u>\$ 1,644,522</u>

LIABILITIES AND MEMBERS' NET POSITION

Current Liabilities:		
Accounts payable	\$ 16,368	\$ 8,607
Due to members	<u>245,821</u>	<u>239,948</u>
Total liabilities	262,189	248,555
Members' Net Position:		
Invested in capital assets, net of related debt	406,234	534,894
Unrestricted	<u>1,067,457</u>	<u>861,073</u>
Total members' net position	<u>1,473,691</u>	<u>1,395,967</u>
Total liabilities and members' net position	<u>\$ 1,735,880</u>	<u>\$ 1,644,522</u>

The accompanying notes are an integral part of these statements.

HEALTH PARTNERS OF SOUTHWEST IOWA  
Statements of Revenues, Expenses, and Changes in Members' Net Position  
Year ended June 30,

	<u>2015</u>	<u>2014</u>
Revenues:		
Nuclear medicine revenue	\$ 466,555	\$ 319,767
Other services revenue	<u>202,123</u>	<u>198,281</u>
	668,678	518,048
Operating Expenses:		
Contract labor	276,862	243,896
Cost of nuclide	118,220	76,633
Depreciation	128,660	109,856
Dues and subscriptions	100	100
Education	3,195	373
Insurance	1,595	6,602
Licenses	2,923	6,770
Miscellaneous expense	643	1,142
Legal and accounting	12,378	12,324
Postage	609	647
Purchased services	4,366	4,954
Rent expense	686	--
Repairs and maintenance	45,843	34,444
Supplies	15,718	24,351
Truck operation	<u>9,411</u>	<u>8,727</u>
Total operating expenses	<u>621,209</u>	<u>530,819</u>
Operating Income (Loss)	47,469	( 12,771)
Non-Operating Revenue:		
Gain on sale of assets	--	37,529
Investment income	<u>30,255</u>	<u>14,734</u>
Total non-operating revenue	<u>30,255</u>	<u>52,263</u>
Excess of Revenues Over Expenses and Increase in Net Position	77,724	39,492
Members' Net Position, Beginning of Year	<u>1,395,967</u>	<u>1,356,475</u>
Members' Net Position, End of Year	<u>\$ 1,473,691</u>	<u>\$ 1,395,967</u>

The accompanying notes are an integral part of these statements.

HEALTH PARTNERS OF SOUTHWEST IOWA  
Statements of Cash Flows  
Year ended June 30,

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from customers and members	\$ 482,943	\$ 410,630
Cash paid to suppliers and members	<u>( 311,514)</u>	<u>( 261,866)</u>
Net cash provided by operating activities	171,429	148,764
Cash flows from investing activities:		
Investment income	2,308	14,734
Equipment purchases and deposits	--	( 459,795)
Equipment sales	--	43,000
Purchase of certificates of deposit	<u>( 1,767)</u>	<u>( 2,014)</u>
Net cash provided by (used in) investing activities	<u>541</u>	<u>( 404,075)</u>
Net increase (decrease) in cash	171,970	( 255,311)
Cash, beginning of year	<u>552,105</u>	<u>807,416</u>
Cash, end of year	<u>\$ 724,075</u>	<u>\$ 552,105</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 47,469	\$( 12,771)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	128,660	109,856
Changes in assets and liabilities		
Accounts receivable	( 14,446)	6,795
Prepaid expenses	( 3,888)	1,220
Accounts payable	7,761	18
Due to members	<u>5,873</u>	<u>43,646</u>
Total adjustments	<u>123,960</u>	<u>161,535</u>
Net cash provided by operating activities	<u>\$ 171,429</u>	<u>\$ 148,764</u>

The accompanying notes are an integral part of these statements.



HEALTH PARTNERS OF SOUTHWEST IOWA  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

Health Partners of Southwest Iowa was formed in 1996 pursuant to the provisions of Chapter 28E of the Code of Iowa. The Organization was formed to share ideas, capital, and human resources to effect economies of scale and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the service areas of the member Hospitals. The Organization's primary operations currently include operation of a mobile nuclear medicine scanner, a certified training center, and providing credentialing services for members and other area hospitals.

The governing body of the Organization is composed of one representative from each of the three participating entities. The participating entities are Cass County Memorial Hospital, Montgomery County Memorial Hospital, and Myrtue Medical Center. Each participating entity owns an equal share in the organization.

2. Basis of Presentation

The Statement of Net Position displays the Organization's assets, liabilities, and net position in a balance sheet format. Net position is reported in three categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation/amortization and reduced by liabilities attributable to the acquisition of those assets.

*Restricted net position:*

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Organization.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. The Organization had no restricted net position.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Organization's policy to use restricted net position first.

HEALTH PARTNERS OF SOUTHWEST IOWA  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Equipment

Equipment acquisitions with a cost in excess of \$5,000 and lives in excess of three years, are recorded at cost. Depreciation is provided over the estimated useful life (ranging from three to ten years) of each class of depreciable asset and is computed on the straight-line method.

6. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less.

The Organization's deposits at June 30, 2015 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa, because they are deposited as a sub-account of Cass County Memorial Hospital. The Organization's deposits consist of checking and savings accounts, and any certificates of deposit.

7. Accounts Receivable

The Organization considers accounts receivable to be fully collectible, accordingly, no allowance for doubtful accounts is required.

HEALTH PARTNERS OF SOUTHWEST IOWA  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE B - CAPITAL ASSETS

Organization capital assets, additions, disposals and balances for the years ended June 30, 2015 and 2014 were as follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2015</u>
Equipment Cost	\$ 684,710	\$ --	\$ --	\$ 684,710
Depreciation	<u>149,816</u>	<u>128,660</u>	<u>--</u>	<u>278,476</u>
Equipment, Net	<u>\$ 534,894</u>	<u>\$ ( 128,660)</u>	<u>\$ --</u>	<u>\$ 406,234</u>
	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
Equipment Cost	\$ 583,807	\$ 571,943	\$ 471,040	\$ 684,710
Depreciation	<u>505,529</u>	<u>109,856</u>	<u>465,569</u>	<u>149,816</u>
Equipment, Net	<u>\$ 78,278</u>	<u>\$ 462,087</u>	<u>\$ 5,471</u>	<u>\$ 534,894</u>

NOTE C - RELATED ORGANIZATIONS

Health Partners of Southwest Iowa is a joint venture of three hospitals including Cass County Memorial Hospital (CCMH), Montgomery County Memorial Hospital (MCMH), and Myrtue Medical Center (MMC). Each of the three hospitals purchase mobile scanning and other services from the Organization. In addition, the hospitals are reimbursed for supplies and labor provided to the joint venture. Below is a list of amounts due to or from Health Partners of Southwest Iowa by the members at year end and the transactions between the Organization and members during the years ended:

	<u>CCMH</u>	<u>MCMH</u>	<u>MMC</u>
<u>June 30, 2015</u>			
Due from hospitals	\$ --	\$ 12,878	\$ 10,231
Due (to) hospitals	( 238,349)	--	( 7,472)
Services rendered to hospitals	182,897	83,341	115,258
Services and supplies purchased through hospitals	187,976	28,208	137,726
<u>June 30, 2014</u>			
Due from hospitals	\$ --	\$ 5,890	\$ 8,619
Due (to) hospitals	( 231,984)	( 4,143)	( 3,821)
Services rendered to hospitals	121,844	92,033	75,255
Services and supplies purchased through hospitals	155,713	38,580	79,624

HEALTH PARTNERS OF SOUTHWEST IOWA  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE D - COMMITMENT AND CONTINGENCIES

Economic Dependency

The Organization currently derives the majority of its operating revenue from providing mobile nuclear medicine scanning services. Approximately 57% (56% in 2014) of its revenue is through transactions with member hospitals. The Organization also purchases most of its contract labor and supplies (approximately 57% (52% in 2014) of its expenses) from member hospitals.

Risk Management

The Organization is insured for protection against liability claims resulting from professional services provided or which should have been provided through liability insurance contracts of each of the individual members. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Health Partners of Southwest Iowa is exposed to various other common business risks for which it is covered by commercial insurance of Cass County Memorial Hospital. Settled claims from these risks have not exceeded insurance coverage during any of the past three years.

Subsequent Events

The Organization has evaluated all subsequent events through August 19, 2015, the date the financial statements were available to be issued.

\* \* \*

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Members of  
Health Partners of Southwest Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Health Partners of Southwest Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Health Partners of Southwest Iowa's basic financial statements and have issued our report thereon dated August 19, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health Partners of Southwest Iowa's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Partners of Southwest Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Partners of Southwest Iowa's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 15-I-A.

To the Board of Trustees of  
Health Partners of Southwest Iowa

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Partners of Southwest Iowa's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

### Response to Findings

Health Partners of Southwest Iowa's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Health Partners of Southwest Iowa's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Gronewold, Bell, Kyhmn + Co. P. C.*

Atlantic, Iowa  
August 19, 2015

HEALTH PARTNERS OF SOUTHWEST IOWA  
Schedule of Findings and Responses  
Year Ended June 30, 2015

PART I - REPORTABLE CONDITIONS

15-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Organization. However, this situation is common in small organizations.

Recommendation: We recognize that it may not be economically feasible for the Organization to contract for additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The members are aware of this lack of segregation of duties, but it is not economically feasible for the Organization to contract for additional personnel for this reason. The members will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*